

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 EUR-12 ISO-00 AGR-05 SWF-01 AID-05

CIAE-00 COME-00 FRB-01 INR-05 NSAE-00 RSC-01 TRSE-00

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-01 CEA-01 L-02 H-01 PA-01 PRS-01

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 6977

INFO AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

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AMEMBASSY LONDON

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SAN SALVADOR 252

SAN JOSE 388

TEGUCIGALPA 262

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GUATEMALA ALSO FOR ROCAP

E.O. 11652: N/A

TAGS: ETRD EAGR

SUBJ: COFFEE: VENEZUELAN SUPPORT FOR CENTRAL AMERICAN RETENTION
SCHEME

REF: STATE 273072

1. LOCAL PRESS REPORTED TODAY, DECEMBER 16, THAT FORMAL AGREEMENT
BETWEEN CHIEFS OF STATE OF VENEZUELA AND MAJOR CENTRAL AMERICAN
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COFFEE-PRODUCING COUNTRIES WAS REACHED AT MEETINGS HELD HERE

DECEMBER 13-14. AGREEMENT SEEKS TO INCREASE WORLD COFFEE PRICE TO US \$71.00 PER 100 PNDS BY COFFEE RETENTION SCHEME OF MAJOR PRODUCERS, WITH FINANCIAL ASSISTANCE COMING FROM VENEZUELA.

2. SPECIFICS OF AGREEMENT AS REPORTED IN TODAY'S NEWSPAPER INCLUDE FOLLOWING POINTS:

A. MONEY IN THE FORM OF LOANS WILL BE MADE AVAILABLE TO CENTRAL BANKS OF PARTICIPATING COUNTRIES THROUGH VENEZUELAN INVESTMENT FUND. AMOUNT OF EACH LOAN WILL BE DETERMINED BY EACH COUNTRY'S OWN PRODUCTION AND ITS REQUEST FOR ASSISTANCE SUBMITTED TO THE FUND. SUBMISSIONS ARE DUE JANUARY 15, 1975. NO REQUEST WILL BE ACCEPTED FOR LESS THAN US ONE MILLION DOLLARS.

B. LOANS WILL BE MADE IN UP TO FOUR SEPARATE INSTALLMENTS. THE FIRST INSTALLMENT WILL BE BASED ON RETENTION OF COFFEE FOR THE 1973-1974 PRODUCTION YEAR. REMAINING INSTALLMENTS WILL BE MADE DURING THE FIRST FOUR MONTHS OF 1975, AND WILL BE BASED ON THE PRODUCTION WITHHELD IN THE PERIOD JANUARY-MARCH, 1975. TWENTY PERCENT OF THE 1974-75 CROP IS TO BE RETAINED. THE FUND WILL GRANT LOANS TO EACH COUNTRY IN THE AMOUNT OF US \$0.71 PER POUND DURING ANY 10-DAY PERIOD BETWEEN JUNE 1 AND NOVEMBER 30, 1975, COUNTRIES WILL BE OBLIGATED TO REPAY FORTY PERCENT OF THE TOTAL AMOUNT BORROWED PRIOR TO DECEMBER 1, 1975. AN ADDITIONAL TWENTY PERCENT OF THE LOAN WILL BE DUE IN DECEMBER 1975 IF THE AVERAGE PRICE IS \$0.71 PER POUND FOR ANY 5-DAY CONSECUTIVE PERIOD IN THAT MONTH. FULL REPAYMENT MUST BE MADE BY MARCH 31, 1976.

D. INTEREST RATES ON LOANS WILL BE DETERMINED BY THE AVERAGE WORLD PRICE AS FOLLOWS:

AVERAGE WORLD PRICE (\$ US PER POUND)	INTEREST RATE PER ANNUM
TO 0.64	8 PERCENT
OVER 0.64 TO 0.655	8 1/2 PERCENT
OVER 0.655 TO 0.67	9 PERCENT
OVER 0.67 TO 0.68	9 1/2 PERCENT
OVER 0.68	10 PERCENT

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3. COMMENT. LOAN AND REPAYMENT PROVISIONS DO APPEAR SUCH THAT CENTRAL AMERICAN COUNTRIES WILL BEAR A SIGNIFICANT SHARE OF THE FINANCIAL BURDEN OF THE RETENTION SCHEME. ALSO, ALTHOUGH COMMENTED ON, THERE WAS NO INDICATION THAT THE GROUP FOCUSED DIRECTLY UPON POSSIBILITY OF BUILDUP OF EXCESS SUPPLIES THROUGH RETENTION SCHEME, AND HOW THIS MATTER WOULD BE RESOLVED SHOULD IT OCCUR.

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